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HAVEN HILLS, INC.
(A Non-Profit Organization)

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

For The Year Ended June 30, 2008

with

INDEPENDENT AUDITORS' REPORT THEREON

February 25, 2009

Board of Directors
Haven Hills, Inc.
Owensmouth Avenue
Canoga Park, CA 91303

Dear Sirs or Madams:

We have audited the consolidated financial statements of Haven Hills, Inc. (the "Organization"), as of June 30, 2008 and for the year then ended, and have issued our report thereon dated February 25, 2009. In planning and performing our audit of the consolidated financial statements of the Organization, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Fixed Assets

The Organization does not regularly take inventory of all fixed assets, nor does it tag the assets for identification.

Recommendation and Benefit

By tagging and taking inventory of fixed assets, the Organization will be able to account for assets on hand and keep better accounting records. It will also help with identifying assets stolen or damaged during the course of the year.

Investments

The Organization performs reconciliation of investment account statements only at year-end.

Recommendation and Benefit

By performing a reconciliation of investment account statements on a periodic basis, management will be able to improve monitoring of gain and loss on investments and enhance decision making related to investments.

Financial Statements

The Organization uses the assistance of its auditors to prepare its draft financial statements and footnote disclosures.

Recommendation and Benefit

By drafting its own financials, the Organization would be able to improve upon the timeliness and cost efficiencies of its financial statement presentation and disclosures.

* * * *

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the management, and others within the Organization.

Very truly yours,

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Haven Hills, Inc.

We have audited the accompanying statement of financial position of Haven Hills, Inc. (a non-profit organization) (the "Organization") as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Haven Hills, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, during fiscal year 2008 management of the Organization determined that certain errors resulted in the overstatement of previously reported notes payable of \$121,193 as of June 30, 2007. Accordingly, an adjustment has been made to net assets as of July 1, 2007 to correct the errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2009 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information on pages 17, 18 and 19 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KMJ Corbin & Company LLP
KMJ | Corbin & Company LLP

Costa Mesa, California
February 25, 2009

HAVEN HILLS, INC.
(A Non-Profit Organization)

STATEMENT OF FINANCIAL POSITION

	June 30, 2008
<hr/>	
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 171,110
Marketable securities and investments	282,265
Contracts receivable	172,669
Prepaid expenses	<u>392</u>
Total current assets	626,436
Property and equipment, net	<u>3,070,659</u>
	\$ <u><u>3,697,095</u></u>
 LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	\$ 113,747
Accrued payroll and payroll taxes	98,672
Notes payable, current portion	<u>2,349,239</u>
Total current liabilities	2,561,658
Notes payable, net of current portion and debt discount	<u>287,203</u>
Total liabilities	<u>2,848,861</u>
Commitments and contingencies	
Net assets:	
Unrestricted	352,363
Temporarily restricted	440,546
Permanently restricted	<u>55,325</u>
Total net assets	<u>848,234</u>
	\$ <u><u>3,697,095</u></u>

See accompanying notes to financial statements

HAVEN HILLS, INC.
(A Non-Profit Organization)

STATEMENT OF ACTIVITIES

	For The Year Ended June 30, 2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and support:				
Governmental service contracts	\$ 1,006,773	\$ -	\$ -	\$ 1,006,773
Rental income	30,750	-	-	30,750
Interest and dividend income	18,036	-	-	18,036
Unrealized losses on marketable securities and investments, net	(20,668)	-	-	(20,668)
Private contributions and donations	347,727	39,042	-	385,769
In-kind contributions	48,390	-	-	48,390
Special events, net	44,218	-	-	44,218
Forgiveness of notes payable	22,709	-	-	22,709
Allocation from United Way	39,034	-	-	39,034
Net assets released from restrictions-satisfaction of program restrictions	<u>66,321</u>	<u>(66,321)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,602,290</u>	<u>(27,279)</u>	<u>-</u>	<u>1,575,011</u>
Expenses:				
Program services	1,414,655	-	-	1,414,655
General and administrative	407,378	-	-	407,378
Fundraising	<u>5,638</u>	<u>-</u>	<u>-</u>	<u>5,638</u>
Total expenses	<u>1,827,671</u>	<u>-</u>	<u>-</u>	<u>1,827,671</u>
Change in net assets	<u>(225,381)</u>	<u>(27,279)</u>	<u>-</u>	<u>(252,660)</u>
Net assets, beginning of year	456,551	467,825	55,325	979,701
Restatement to correct error from prior years:				
Forgiveness of notes payable	<u>121,193</u>	<u>-</u>	<u>-</u>	<u>121,193</u>
Restated net assets, beginning of year	<u>577,744</u>	<u>467,825</u>	<u>55,325</u>	<u>1,100,894</u>
Net assets, end of year	<u>\$ 352,363</u>	<u>\$ 440,546</u>	<u>\$ 55,325</u>	<u>\$ 848,234</u>

See accompanying notes to financial statements

HAVEN HILLS, INC.
(A Non-Profit Organization)

STATEMENT OF FUNCTIONAL EXPENSES

	For The Year Ended June 30, 2008			
	Program Services	General and Administrative	Fundraising	Total
Personnel expenses:				
Salaries	\$ 712,624	\$ 236,543	\$ -	\$ 949,167
Payroll taxes	52,299	17,304	-	69,603
Employee benefits	73,898	42,474	-	116,372
Retirement annuity	-	12,699	-	12,699
Total personnel expenses	<u>838,821</u>	<u>309,020</u>	<u>-</u>	<u>1,147,841</u>
Other expenses:				
Advertising	-	998	-	998
Amortization of debt discount	23,625	-	-	23,625
Bank charges	-	4,620	-	4,620
Computer	7,876	10,750	-	18,626
Consultants	136,996	11,316	-	148,312
Depreciation and amortization	129,604	14,400	-	144,004
Equipment	480	502	-	982
Insurance	25,993	8,764	-	34,757
In-kind expense	48,390	-	-	48,390
Miscellaneous	1,038	9,689	273	11,000
Office	5,084	7,665	63	12,812
Postage	-	3,381	2,049	5,430
Printing	223	1,081	2,891	4,195
Professional fees	51,450	5,717	-	57,167
Rent	4,338	-	-	4,388
Repairs and maintenance	57,885	3,410	-	61,295
Security	4,433	1,438	-	5,871
Supplies	20,521	163	123	20,807
Taxes and licenses	7,459	1,221	-	8,680
Training	2,710	740	-	3,450
Telephone	8,555	4,225	-	12,780
Travel	3,308	907	239	4,454
Utilities	<u>35,816</u>	<u>7,371</u>	<u>-</u>	<u>43,187</u>
Total other expenses	<u>575,834</u>	<u>98,358</u>	<u>5,638</u>	<u>679,830</u>
Total functional expenses	<u>\$ 1,414,655</u>	<u>\$ 407,378</u>	<u>\$ 5,638</u>	<u>\$ 1,827,671</u>

See accompanying notes to financial statements

HAVEN HILLS, INC.
(A Non-Profit Organization)

STATEMENT OF CASH FLOWS

	For The Year Ended June 30, 2008
Cash flows from operating activities:	
Change in net assets	\$ (252,660)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	144,004
Unrealized losses on marketable securities and investments, net	20,668
Forgiveness of notes payable	(22,709)
Amortization of debt discount	23,625
Changes in operating assets and liabilities:	
Contracts receivable	133,738
Prepaid expenses	5,184
Accounts payable	(22,361)
Accrued payroll and payroll taxes	<u>21,044</u>
Net cash provided by operating activities	<u>50,533</u>
Cash flows from investing activities:	
Purchase of marketable securities and investments	(5,139)
Purchases of property and equipment	<u>(1,304)</u>
Net cash used in investing activities	<u>(6,443)</u>
Net increase in cash	44,090
Cash and cash equivalents at beginning of year	<u>127,020</u>
Cash and cash equivalents at end of year	<u>\$ 171,110</u>

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 1 – ORGANIZATION

Haven Hills, Inc. (the “Organization”) was established and incorporated in August 1977. The Organization is a non-profit corporation which provides shelter and psychological counseling services to victims of domestic violence. Program services include a crisis hotline, a 30-day crisis shelter and a transitional shelter (Haven II) where the victims and their children may remain for up to eighteen months, a counseling clinic, a domestic abuse response team and a children’s enrichment program (Love’s Child). Funding is received from government agencies, as well community contributions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization’s activities and operations at the discretion of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income or gains earned on related investments for general (unrestricted) or specific purposes (temporarily restricted).

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Significant estimates made by management include, but are not limited to, the adequacy of the allowance for losses on uncollectible contracts receivable, the fair value of marketable securities and investments and the recoverability of long-lived assets through future operations.

Contributions

Contributions are recognized at fair value when the donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In-kind Contributions

In-kind contributions are recognized in the financial statements if the services or goods received enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended June 30, 2008, such contributions totaled \$48,390.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 2 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Organization may also receive a significant amount of contributed time from volunteers that may not meet the recognition criteria described. Accordingly, the value of such contributed time is not reflected in the accompanying financial statements.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include operating cash held in banks and money market funds with an original maturity of ninety days or less. From time to time, the Organization maintains balances in various operating and money market accounts. The total cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000 per commercial bank. As of June 30, 2008, the Organization did not have deposits in excess of FDIC limits. On October 3, 2008, the FDIC temporarily increased the insurance limits from \$100,000 to \$250,000 through December 31, 2009.

Marketable Securities and Investments

Investments in marketable securities have a readily determinable fair value, and all investments in debt securities are carried at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property and Equipment

Property and equipment are recorded at cost except for donated equipment, which is stated at fair market value at date of receipt. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$500. Maintenance and repairs are charged to operations when incurred. When property and equipment are sold or otherwise retired, the asset accounts and related accumulated depreciation and amortization accounts are removed, and any gain or loss is included in the statement of activities.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 2 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	20 to 30 years
Computer equipment and software	3 to 5 years
Equipment	5 to 7 years
Furniture and fixtures	5 to 7 years
Building improvements	5 to 10 years

Long-Lived Assets

The Organization owns significant long-lived assets, which are used in its operations. These assets are subject to changes in value, including potential declines in value, depending on events or changes in circumstances. In the event that there is a decline in value, the Organization performs an analysis to determine if the decline in value may not be recoverable. Management has determined that no unrecoverable declines in the market values of long-lived assets exist at June 30, 2008. There can be no assurance however, that market values will not decline in the future, which may result in a reduction in the carrying value of these assets.

Income Taxes

The Organization is a public charity that has obtained an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal or state income taxes. The Organization is subject, however, to Federal and California income taxes on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the year ended June 30, 2008, the Organization had no unrelated business income.

Allocated Expenses

The direct costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain indirect costs have been allocated among the programs and supporting services benefited based upon estimated benefit received.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 2 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Risks and Uncertainties

Certain of the Organization's services are governed by grant agreements with governmental agencies. All such grant agreements involving the Organization are for fixed terms and expire on an annual basis. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of activities. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions and civil penalties.

The Organization is required to comply with OMB Circular A-133 and other federal audit requirements. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties, and could have an adverse effect on the Organization's financial position and operations. Management believes that they will be able to continue obtaining appropriate agreements to fund future operations based on their relationships and their historical ability to obtain new grant agreements.

Contracts Receivable

Contract receivables represent billings for services rendered prior to June 30, 2008 on contracts existing at year end. It is the policy of management to review the outstanding contracts receivable at year end, as well as the bad debt write offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. The Organization believes that contract receivables are fully collectible and therefore has no allowance for uncollectible accounts as of June 30, 2008.

These receivables are from government agencies and are subject to governmental audit. Management believes that no material adjustments will result from subsequent audits, if any, by governmental agencies.

HAVEN HILLS, INC.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 3 – MARKETABLE SECURITIES AND INVESTMENTS

The cost and fair value of marketable securities and investments at June 30, 2008 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Bond funds	\$ 91,720	\$ 94,589
Equity funds	<u>200,741</u>	<u>187,676</u>
Total	\$ <u>292,461</u>	\$ <u>282,265</u>

Restrictions on trading securities at June 30, 2008 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Unrestricted	\$ 234,017	\$ 226,940
Permanently restricted	<u>58,444</u>	<u>55,325</u>
Total	\$ <u>292,461</u>	\$ <u>282,265</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2008:

Land	\$ 1,082,781
Buildings	2,464,947
Equipment	269,399
Furniture and fixtures	131,088
Building and improvements	<u>855,171</u>
	4,803,386
Less accumulated depreciation and amortization	<u>(1,732,727)</u>
Total	\$ <u>3,070,659</u>

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 5 – LINE OF CREDIT

The Company has a credit agreement (the “Credit Agreement”) with Telesis Community Credit Union that provides the Company with a total borrowing facility of up to \$250,000, secured by the Organization’s crisis shelter building. Outstanding borrowings on the revolving credit facility accrue interest at the Wall Street Journal prime rate plus 2.25% (totaling 10.5% at June 30, 2008). At June 30, 2008, there was no balance outstanding under the line of credit agreement, which expires August 28, 2010.

NOTE 6 – NOTES PAYABLE

Notes payable at June 30, 2008 are summarized as follows:

Residual receipts note payable to the Los Angeles Housing Department (“LAHD”), entered into on March 23, 1995, secured by a deed of trust against the Organization’s transitional housing. The debt is non-interest bearing and is due on the earlier of (a) 30 years from the date of completion, (b) the sale of property, or (c) in the event of default. In addition, 50% of the residual receipts generated from the annual rental income earned on the property is required to be paid against the loan principal on an annual basis beginning April 30, 1999. Through June 30, 2008, the Organization has not been required to pay any amounts to LAHD under this provision.

\$ 1,152,518

Note payable to the LAHD entered into on March 24, 1996, secured by a deed of trust against the Organization’s transitional housing. The debt is non-interest bearing and is due on the same terms as the residual receipts grant.

1,196,721

Note payable to the LAHD, entered into on March 26, 1996, secured by a deed of trust against the Organization’s transitional housing. The debt is non-interest bearing and is due on March 26, 2026. A total of \$64,167 of the gross proceeds of the grant has been forgiven at June 30, 2008. A discount factor of \$317,995 at a discount rate of 8% has been applied to the grant and is being recorded to expense over the life of the loan. At June 30, 2008, the unamortized portion of the discount is \$211,997.

73,836

HAVEN HILLS, INC.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 6 – NOTES PAYABLE, continued

Note payable to the LAHD for building improvements to the Organization's services center building. The loan was entered into on January 17, 2001, and is secured by a deed of trust against the Organization's services center building. The debt is non-interest bearing and is forgiven over a period of 20 years from the first day of the calendar year following the date of completion. The building improvements were completed in October 2003 and a total of \$113,891 of the gross proceeds of the grant have been forgiven at June 30, 2008. A discount factor of \$162,699 at a discount rate of 5% has been applied to the grant as of January 1, 2004, and is being recorded to expense over the life of the loan. At June 30, 2008, the unamortized portion of the discount is \$128,305.

	<u>213,367</u>
	2,636,442
Less current portion	<u>(2,349,239)</u>
	\$ <u>287,203</u>

Future maturities of notes payable at June 30, 2008 are scheduled as follows:

<u>Years Ending June 30,</u>	
2009	\$ 2,349,239
2010	-
2011	-
2012	-
2013	-
Thereafter	<u>627,505</u>
	2,976,744
Less discount factor	<u>(340,302)</u>
	\$ <u>2,636,442</u>

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 6 – NOTES PAYABLE, continued

The Organization was additionally required to establish and maintain certain balances in an operating and replacement reserve fund. On June 30, 2007, the Organization was considered in default of the loan and underwent renegotiations with LAHD. On October 16, 2008, LAHD forgave the Organization's loan default for prior years and charged no fee for the defaulted years. However, the Organization is still currently in default since the required reserve accounts are yet to be established. As a result, \$2,349,239 of LAHD notes are classified as current in the accompanying statement of financial position.

NOTE 7 – RESTRICTED RESERVES

According to loan and regulatory agreements, the Organization is required to maintain project reserves. The Organization is required to fund annually, operating reserves equal to 3% of collected rental income and replacement reserves as approved by the loan grantor, LAHD. As of June 30, 2008, the Company had not maintained these reserve accounts, and is therefore considered to be in technical default of the related loans (see Note 6). The required reserve for operating reserves totaled \$923 as of June 30, 2008. For replacement reserves, LAHD has not indicated any such required balance.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Indemnities and Guarantees

The Organization has made certain indemnities and guarantees, under which it may be required to make payments in relation to certain transactions. The Organization indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of California. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. As of the report date, the Organization has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial position.

HAVEN HILLS, INC.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 9 – SPECIAL EVENTS

Income and expenses from special events are as follows:

Revenue	\$ 77,220
Expenses	<u>(33,002)</u>
Net income	\$ <u>44,218</u>

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 were available for the following purposes:

<u>Purpose</u>	<u>Available June 30, 2007</u>	<u>New Revenues</u>	<u>Expenditures</u>	<u>Available June 30, 2008</u>
DART	\$ 6,750	\$ -	\$ 2,613	\$ 4,137
Facility expenses	75,069	14,042	1,821	87,290
Transitional housing	318,360	-	23,625	294,735
Program expenses	<u>67,646</u>	<u>25,000</u>	<u>34,125</u>	<u>58,521</u>
	\$ <u>467,825</u>	<u>39,042</u>	\$ <u>66,321</u>	\$ <u>440,546</u>

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at June 30, 2008:

Haven II Transitional Living Facility	\$ 50,650
Betty Fisher Legacy Endowment	<u>4,675</u>
	\$ <u>55,325</u>

NOTE 12 – RETIREMENT PLAN

The Organization maintains a contributory retirement plan covering all employees with one year or more of service. Annual employer contributions to the plan of up to \$2,500 per employee are provided based on 50% of the applicable employee deferrals. The Organization contributed \$12,699 for the year ended June 30, 2008.

HAVEN HILLS, INC.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 13 – SUBSEQUENT EVENTS

The fair value of the Organization's investments, which totaled \$282,265 at June 30, 2008, had decreased in value to \$234,553 as of December 31, 2008, due to the decline in the United States and global financial markets.

HAVEN HILLS, INC.
(A Non-Profit Organization)

Statement of Financial Position of Haven Hills Transitional Housing Program

	June 30, 2008
ASSETS	
Cash	\$ 100
Property and equipment, at cost	2,147,173
Less: accumulated depreciation and amortization	<u>(832,223)</u>
Total assets	<u>\$ 1,315,050</u>
LIABILITIES AND NET ASSETS	
Tenant security deposit	\$ 2,555
LAHD Residual receipts note payable	1,152,518
LAHD Bridge loan for transitional housing	1,196,721
LAHD loan for transitional housing	285,833
Less: discount factor	<u>(211,997)</u>
Total liabilities	2,425,630
Net assets (unrestricted)	<u>(1,110,580)</u>
	<u>\$ 1,315,050</u>

HAVEN HILLS, INC.
(A Non-Profit Organization)

Statement of Activities of Haven Hills Transitional Housing Program
(22 units)

	<u>For The Year Ended June 30, 2008</u>	<u>Per Unit/Month</u>
Revenue:		
Rental income, net	\$ <u>26,271</u>	\$ <u>100</u>
Expenses:		
Administrative	1,648	6
Maintenance	7,196	27
Utilities	5,586	22
Salaries and benefits	6,915	26
Professional fees	-	-
Insurance	6,000	23
Management fees	-	-
Property taxes	2,959	11
Interest expense	-	-
Depreciation and amortization	71,572	271
Asset management fee	<u>-</u>	<u>-</u>
Total expenses	<u>101,876</u>	<u>386</u>
Net loss	\$ <u><u>(75,605)</u></u>	\$ <u><u>(286)</u></u>

HAVEN HILLS, INC.
(A Non-Profit Organization)

Statement of Cash Flows of Haven Hills Transitional Housing Program
(22 units)

	<u>For The Year Ended June 30, 2008</u>	<u>Per Unit/Month</u>
Cash flows from operating activities:		
Net loss	\$ (75,605)	\$ (286)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	71,572	271
Decrease in tenant security deposits, net	<u>(3,020)</u>	<u>(11)</u>
Net cash used in operating activities	<u>(7,053)</u>	\$ <u>(26)</u>
Cash flows from investing activities	<u>-</u>	
Cash flows provided by financing activities:		
Private contributions and donations provided by Haven Hills, Inc.	<u>7,053</u>	
Net decrease in cash	-	
Cash, beginning of year	<u>100</u>	
Cash, end of year	\$ <u><u>100</u></u>	
Residual receipts due to LAHD	\$ <u><u>-</u></u>	

HAVEN HILLS, INC.
(A Non-Profit Organization)

SUPPLEMENTAL SCHEDULES REQUIRED
BY OMB CIRCULAR A-133

For The Year Ended June 30, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Haven Hills, Inc.

We have audited the financial statements of Haven Hills, Inc. (the "Organization") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider item 2008-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiency described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-2.

We noted certain other matters, which we have reported to management of the Organization in a separate letter dated February 25, 2009.

This report is intended solely for the information and use of the Board of Directors, audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Costa Mesa, California
February 25, 2009

KMJ Corbin & Company LLP
KMJ | Corbin & Company LLP

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Haven Hills, Inc.

Compliance

We have audited the compliance of Haven Hills, Inc. (the "Organization") with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, Haven Hills, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-2.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal, State and County Awards and Schedule of OES Revenue and Functional Program Expenses

We have audited the basic financial statements of Haven Hills, Inc. as of and for the year ended June 30, 2008, and have issued our report dated thereon dated February 25, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of Federal, State and County awards, notes to schedule of Expenditures of Federal, State and County Awards and schedule of OES revenue and functional program expenses on pages 5, 6, and 7 are presented for purposes of additional analysis as required by OMB Circular A-133 and the Office of Emergency Services ("OES") and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

This report is intended solely for the information of the Board of Directors, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

Costa Mesa, California
February 25, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND COUNTY AWARDS

For The Year Ended June 30, 2008

<u>Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Awards Expenditures</u>
FEDERAL AWARDS		
<u>United States Department of Housing and Urban Development:</u>		
Pass-through from the City of Los Angeles City of Los Angeles – New City Grant	14.218	\$ <u>360,370*</u>
<u>United States Department of Justice:</u>		
Pass-through from the State of California Office of Emergency Services (“OES”) Violence Against Women Formula Grant	16.588	200,070*
Pass-through from the City of Los Angeles: Public Safety Partnership and Community Policing Grant	16.710	<u>160,000</u>
Total United States Department of Justice		<u>360,070</u>
Total expenditures of federal awards		\$ <u>720,440</u>
STATE AWARDS		
Department of Health Services- Haven II and Teen Program	N/A	\$ <u>221,329</u>
COUNTY AWARDS		
Presley	N/A	\$ <u>65,004</u>
Total expenditures of federal, state and county awards		\$ <u>1,006,773</u>

* Major program

**NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL, STATE AND COUNTY AWARDS**

For The Year Ended June 30, 2008

NOTE 1 - GENERAL

The accompanying schedule of expenditures of Federal, State and County Awards presents the activity of all federal, state and county award programs of Haven Hills, Inc. (the "Organization") for the year ended June 30, 2008. Federal awards received directly from federal agencies as well as federal awards passed through state and local agencies are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal, State and County Awards is presented using the accrual basis of accounting which is described in the notes to the Organization's financial statements.

**NOTE 3 - RELATIONSHIP TO FEDERAL, STATE AND COUNTY AWARDS
REPORTS**

Amounts reported in the accompanying Schedule of Expenditures of Federal, State and County Awards agree with the amounts reported in the related federal, state and county financial reports for all major federal, state and county programs.

Haven Hills, Inc.
(A Non-Profit Organization)

SCHEDULE OF OES REVENUE AND FUNCTIONAL PROGRAM EXPENSES

For The Year Ended June 30, 2008

	<u>OES Funds</u>	<u>Other Matching Funds</u>	<u>Total</u>
<u>July 1, 2007 to June 30, 2008 - Contract V06211271</u>			
Revenue:			
OES Grant Award	\$ <u>200,070</u>	\$ <u>43,902</u>	\$ <u>243,972</u>
Expenses:			
Salaries and employee benefits	\$ 163,462	\$ 24,450	\$ 187,912
Operating expenses	<u>36,608</u>	<u>19,452</u>	<u>56,060</u>
	\$ <u>200,070</u>	\$ <u>43,902</u>	\$ <u>243,972</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of Haven Hills, Inc.
2. A material weakness relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Haven Hills, Inc. were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The independent auditors' report on compliance for the major federal award programs for Haven Hills, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Haven Hills, Inc. that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are enumerated in Part C of this schedule.
7. The programs tested as major programs include pass-through programs under U.S. Department of Housing and Urban Development and U.S. Department of Justice as follows:

CFDA Number

Pass-through from the City of Los Angeles	
City of Los Angeles – New City Grant	14.218

Pass-through from the State of California Office of Emergency Services ("OES")	
Violence Against Women Formula Grant	16.588

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Haven Hills, Inc. did not qualify as a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT

2008-1

Statement of Condition

The Organization incorrectly recorded the debt discount amortization and forgiveness, and does not maintain a rollforward for the debt it carries on its books.

Criteria

The Organization should record periodic debt discount amortization and loan forgiveness in order to prepare a proper debt rollforward so that the Organization maintains its accounts in accordance with generally accepted accounting principles.

Effect

The debt reflected in the Organization's financial statements has been materially misstated.

Cause

See "Condition" section above.

Recommendation

The Organization should maintain a rollforward for each of its loans that agree with the latest debt agreement (including amendments and correspondence) from the loan grantor.

Management's Response

Management agrees with the recommendation and will correct the situation during the next fiscal year.

2008-2

Statement of Condition

The Organization did not maintain the operating and replacement reserve accounts during the year ended June 30, 2008.

Criteria

Per OMB Circular A-133 Compliance Supplement, under Special Tests and Provision, and in accordance with the terms of the Residual Receipt loan (Haven 2 Transitional Housing Project from the City of Los Angeles), the Organization is required to maintain certain monies in restricted cash accounts (i.e., operational and replacement reserves).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

Effect

The Organization is not in compliance with the terms of the loan, and the loan is therefore considered to be in technical default.

Cause

See "Condition" section above.

Recommendation

The Organization should maintain restricted cash accounts for operational and replacement reserves as required under the loan agreement. We recommend the Organization contact the LAHD both to obtain a waiver on the technical default and to renegotiate the loans.

Management's Response

The Organization does not possess the monetary flexibility to maintain operational and replacement reserve accounts, but will continue to make efforts in that direction, as well as continue to make reasonable efforts to renegotiate the loan and/or arrange for the technical default to be waived.

D. SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

2007-1

Statement of Condition

During test work, the following issues were noted:

- There is an absence of appropriate reviews and approvals of transactions and accounting entries.
- Journal entries are missing backup information.

Criteria

According to OMB Circular A-133 and Government Auditing Standards, "Auditors should report deficiencies in internal control that they consider to be significant deficiencies as defined in AICPA standards. This report shall describe the scope of testing of internal control over financial reporting and present the results of those tests."

Effect

Haven Hills does not maintain adequate controls to reduce control risk to a relatively new level in order to prevent and detect fraudulent or erroneous transactions affecting the financial statements on a timely basis.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

Cause

The condition arose during the fiscal year due to the Controller having health issues, not understanding the generally accepted accounting principles and not having sufficient knowledge on how to use the accounting software.

Recommendation

It was recommended that Haven Hills establish and document policy and procedures for the head of the operations or Audit Committee to review all posted non-standard journal entries and evidence this by initialing the journal entries.

Management's Response

Agreed. Haven Hills is currently in the process of reviewing current strategic plan and revising the plan for the fiscal year ending 2009 implementation which will address Goal #4: Increase Board Leadership and Engagement. An action item under the following objective of Goal 4, "Increase capability of board to conduct fiscal oversight and policy direction for agency," is for the CFO to conduct monthly oversight of financial systems. The above recommendation to review posted non-standard journal entries will be considered in the strategic plan process to be approved for implementation.

Current Status

Management hired a new controller in October 2007, relieving the old controller of her duties. The executive director now routinely reviews monthly reconciliations, along with periodic reviews by the chief financial officer, and all journal entries were accompanied with material support, thus rendering this issue as resolved.

2007-2

Statement of Condition

The Organization did not maintain the restricted cash accounts or make any residual receipts payments during the year ended June 30, 2007.

Criteria

Per OMB Circular A-133 Compliance Supplement, under Special Tests and Provision, and in accordance with the terms of the Residual Receipt loan (Haven 2 Transitional Housing Project from the City of Los Angeles), the Organization is required to maintain certain monies in restricted cash accounts (i.e., operational and replacement reserves) and make annual payments against the grant by paying 50% of the residual receipts generated from the annual rental income earned on the property to the Los Angeles Housing Department (the "LAHD").

Questioned Costs

\$29,161

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

Effect

The loan is considered to be in technical default, as the Organization is not in compliance with its terms.

Cause

See "Condition" section above.

Recommendation

We noted that the Organization is currently renegotiating the loan with the LAHD. We recommend that the Organization contact the LAHD both to obtain a waiver on the technical default and to complete the loan negotiation. In the future, the Organization should ensure compliance with the terms of the loan.

Management's Response

Agreed. A representative from the Los Angeles Housing Department was contacted for an update on the status of the waiver. They reported progress was being made. Haven Hills has received draft loan agreement and continues to work toward completing the loan negotiation. The Organization will continue to make reasonable efforts to establish the status of the loan and arrange for the technical default to be waived.

Current Status

Management completed negotiations with the LAHD on October 16, 2008, subsequent to year end, and received a waiver on the technical default for prior years. The Organization does not possess the monetary flexibility to maintain operational and replacement reserve accounts, and as has been noted at 2008-1, at the Schedule of Findings and Questioned Costs. The management prepares a residual receipts calculation as required by the loan, thus rendering this portion of the issue as resolved.